

Good morning, Mr. Chairman and members of the Committee. My name is Sarah Fogarty and I am the Director for International Trade at the Grocery Manufacturers of America. It is a pleasure to be here today to offer our views on the Free Trade Area of the Americas (FTAA). GMA strongly supports the FTAA and has been an active participant in the last two Business Forums in Toronto, Canada and Buenos Aires, Argentina.

GMA is the world's largest association of food, beverage and consumer product companies. With US sales of more than \$460 billion, GMA members employ more than 2.5 million workers in all 50 states. The organization applies legal, scientific and political expertise from its member companies to vital food, nutrition and public policy issues affecting the industry. Led by a board of 42 Chief Executive Officers, GMA speaks for food and consumer product manufacturers at the state, federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry.

GMA views the FTAA negotiations as an important opportunity to build upon the success of the North American Free Trade Agreement (NAFTA), and enhance economic integration throughout the Western Hemisphere. GMA was highly supportive of the passage of NAFTA and we have seen excellent results from the agreement. Since implementation, exports of processed food products to our NAFTA partners have nearly doubled, growing from roughly \$3.6 billion to over \$6 billion last year.

Exports though, are really only half the story. We have benefited from imports from our NAFTA partners as well. Let me give you an example. Prior to the NAFTA we had fairly high protection for cucumbers, from which one of our companies makes refrigerated pickles. The day the NAFTA went into effect, the duty on cucumbers for the off-cycle growing season (5 months when no US cucumbers are produced) went to zero. Not only did our manufacturers get additional sourcing options during our off-season, but the savings from the duty elimination could be used for innovation and new product development. In addition, the imported cucumbers helped to keep final costs of pickles down for consumers during the off-season. We are hopeful that we will see the same kinds of results from an even more comprehensive FTAA.

In FY-2001, US exports of processed food products to the hemisphere reached their highest level since 1970. In fact, as the attached charts indicate, processed food exports alone represent roughly 40% percent of all US agricultural exports to the region. While it is hard to predict the expected growth from a Free Trade Area of the Americas, economic factors, such as population and income growth indicate that there is room for significant expansion of trade in processed food products throughout the region. While the US and

Canada have largely stable and aging populations, Latin America has a growing and relatively young population<sup>1</sup>. As a result, more food is demanded on a per capita basis in Latin America because of a younger population with higher caloric requirements and a propensity for purchasing non-traditional food.<sup>2</sup> Rising income levels throughout the region should lead to increasing expenditures on processed food products.

Yet, despite this optimistic outlook, food manufacturers have been unable to realize the full potential of the market due to trade barriers in the region. GMA believes the FTAA process is an excellent vehicle through which to address and eliminate these barriers. Following are GMA's specific comments with respect to negotiating modalities for the FTAA, and in particular, those of the Agriculture Negotiating Group. In addition, we offer our views on the prospects for the negotiations.

### **Recommendations for the Agriculture Negotiating Group**

#### *Market Access*

Tariff barriers to processed food and beverages in the FTAA countries remain significantly higher than those for many other products. Although the WTO Agreement on Agriculture delivered some tariff cuts, the reductions in tariffs for processed foods and beverages were mostly at the lower end of the allowable range. Because the rules allowed countries to average their tariff cuts, countries naturally chose to make high percentage reductions on already low tariffs and lower percentage reductions on higher tariffs. In addition, we often find that in many markets the tariff level increases with the level of processing. Consequently, average tariffs in Latin America on agriculture and food products range from 39 to 54 percent, as compared to roughly 25 percent in the United States. Tariffs in the Caribbean are even higher at 86 percent on average.

Non-tariff barriers also hamper and often times completely obstruct trade in the region. Registration requirements and export certificates are particularly onerous. For example, as many as seven or eight different certificates attesting to a variety of product attributes are often necessary for some exported products. While USDA and FDA will provide certificates to meet certain request for products under their authority, for the past few years, the requests have been well beyond the jurisdiction of the agriculture department. The requests are generally not science based, not transparent, and inconsistently implemented. Examples range from a certificate of product formulation (very worrisome for companies with trademarked products) to "Free from Nuclear Fall Out", to religious certificates. These certificates result in delays, increased cost (documentation costs alone can be as high as \$85 for Mexico vs. \$11 for exports to Canada) and export frustrations since there is often no central US authority for these requirements.

To address these barriers, GMA recommends tariff elimination based on a formula approach that will accelerate the elimination of tariff peaks (asymmetrically high tariffs) and address the problem of tariff escalation, where tariffs increase with the level of

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<sup>1</sup> For example, roughly 30-35 percent of the population is under the age of 15 in Argentina, Brazil and Chile compared with 21 percent in the United States and Canada.

<sup>2</sup> *U.S. Foreign Direct Investment in the Western Hemisphere Processed Food Industry*, ERS/USDA, March 98

processing. This approach should, in essence, reduce the higher tariffs faster than the lower ones to create meaningful market access for processed food products in a reasonable time frame. We also believe that negotiators should work to harmonize certification standards and attempt to reach equivalency agreements wherever appropriate. In addition, we recommend that this liberalization in tariff and non-tariff barriers be completed in less than the ten-year period negotiated in the NAFTA.

GMA also believes that there should be no product or policy exceptions in the FTAA negotiations. Removing key sectors, even sensitive sectors, from the negotiations would seriously undercut the United States' ability to secure meaningful concessions from our trading partners. GMA also believes that tariff-rate quotas (TRQ), which are often utilized to provide access for sensitive commodities, must be employed judiciously and administered in a market-oriented and pro-competitive manner. Finally, we recommend that the negotiations on tariff reductions begin from applied rather than bound rates to ensure commercially meaningful reductions in a reasonable timeframe.

#### *Export Competition*

GMA supports the Ministerial objective of a hemisphere-wide "subsidy free zone." Export subsidies artificially distort world market prices and steal market share from efficient producers. Elimination and prohibition of future subsidies in the FTAA is an important first step toward multilateral commitments in the same area.

#### *Domestic Support*

GMA believes the most effective means for achieving a reduction in domestic support for agricultural commodities will come through increased market access and an elimination of export subsidies. We recommend however, that any continued domestic support be decoupled from production so that it is the least trade distorting as possible, consistent with provisions in WTO Agreement on Agriculture.

#### *SPS Issues*

We urge negotiators to ensure that any FTAA sanitary and phytosanitary regulations are fully consistent with the WTO Agreement on Sanitary and Phytosanitary Measures (SPS) and based soundly on science. Sound science should necessarily be at the core of any agreement in order to ensure that national health and safety regulations are not used as disguised barriers to trade. Increasingly, GMA companies face *de facto* import bans on products because of unscientific SPS regulations. For example, we can't even sell the same breakfast cereal we manufacture here to Canada or Chile because of diverse fortification requirements. Given that many of the most pernicious barriers we confront are related to SPS measures, we believe there should be increased cooperation and consultation on SPS issues in the region. We recommend that the US consider a NAFTA-like SPS committee to work on harmonization of science-based regulations and standards throughout the region.

#### **Prospects for the FTAA Negotiations**

GMA firmly believes that the success of the FTAA is necessarily linked to the launch of a new round of negotiations in the WTO and the passage of Trade Promotion Authority.

### *Importance of WTO Round*

Agriculture has emerged as one of the most contentious sectors in the FTAA negotiations. One area of contention is whether there should be a direct linkage between reductions in domestic support and market access commitments in the FTAA. In addition, although countries have committed to the elimination of export subsidies in the region, there is no clear consensus on how to deal with subsidized exports from third country markets. It is doubtful that these issues can be effectively resolved in the FTAA. Rather, they must be addressed in a multilateral context to achieve similar commitments from all trading partners. Put simply, it is unlikely there will be an FTAA agreement without agriculture and extremely difficult to achieve any results in the agriculture negotiating group in the FTAA without new round of negotiations in the WTO. For these reasons, GMA strongly supports the launch of a new round of trade negotiations this November in Doha, Qatar.

That is not to say that the FTAA negotiations must be put on hold until a new round is launched. On the contrary, GMA believes it is imperative to move forward expeditiously on the FTAA while at the same time pursuing WTO negotiations. Let me give you an example of the importance of the FTAA for American manufacturers. One of our member companies, The Procter & Gamble Company, manufactures Pringles potato chips in only two plants around the world. One plant is in Jackson, Tennessee and the other is in Mechelen, Belgium. The Tennessee plant currently serves the Latin American market, and exports one out of three Pringles cans produced. These exports are important for manufacturers and farmers alike, since the potato chip is, in a way, an export gateway for potatoes, cottonseed oil and soybean oil. This is no small potatoes—at the Jackson plant they purchase \$100 million a year worth of potato flakes and \$40 million in cottonseed and soybean oil.

To demonstrate the importance of an FTAA, consider the following example. In Brazil, the US and the EU face an average MFN tariff rate of 21% on potato chips. Both the EU and US Pringles plants have similar cost structures since both are in developed, high-wage countries. Today the Tennessee plant supplies Brazil mainly because of lower delivery costs. If the US is unable to conclude the FTAA, but the EU successfully completes their negotiations with Mercosur (which are currently underway) then duties for European manufactures would be reduced to zero while US duties would remain at 21%. The lower duty rate would more than offset the higher shipping costs for the European plant. The "marginal" can of Brazilian Pringles will be made in Belgium, not the United States. This is one illustration, but decisions like this happen every day. And, it is from hypothetical—the EU has been negotiating circles around the United States for the last 8 years to the detriment of US manufacturers.

### *Trade Promotion Authority*

Trade Promotion Authority (TPA) is an essential and necessary tool for progress in the FTA. TPA establishes a partnership between the Administration and the Congress that protects trade agreements negotiated by the Administration from amendment during congressional consideration. With TPA, the Administration can ensure trading partners

that commitments made during negotiations will be honored when Congress considers these trade agreements. Without TPA, it is unlikely that trading partners will put forth meaningful offers for fear concessions will be withdrawn later. GMA is committed to the passage of Trade Promotion Authority by the end of this year.

### **Conclusion**

Thank you for this opportunity to present our views before this committee. GMA believes that it is of critical importance to farmers and producers alike to continue to expand market access, reduce tariffs and dismantle barriers to food and agricultural products. Achieving the objectives discussed above will benefit consumers throughout the hemisphere with a more reliable, diverse, safe and affordable food supply. We look forward to working with you and the Administration to achieve these goals. I would be happy to answer any questions.